

# B U S I N E S S S I T U A T I O N

This article was prepared by Larry R. Moran, Daniel Larkins, Ralph W. Morris, Deborah Y. Sieff, and Ann M. Groszkiewicz.

ACCORDING TO the “preliminary” estimates of the national income and product accounts (NIPA’s), real gross domestic product (GDP) increased 3.6 percent in the second quarter of 1997 (table 1 and chart 1); the “advance” estimate of real GDP, reported in the August “Business Situation,” had shown a 2.2-percent increase.<sup>1</sup> The upward revision was accounted for by upward revisions to change in business inventories and to net exports of goods and services, as newly available source data replaced BEA assumptions. (The sources of the revisions are discussed in the “Revisions” section.)

About three-fourths of the second-quarter increase was accounted for by final sales of domestic product, which increased 2.8 percent; inventory investment accounted for the rest.

Although the 1.4-percentage-point revision to real GDP growth was the largest in 3½ years, the overall picture of the economy shown by

the preliminary estimates was roughly the same as that shown by the advance estimates. Real GDP growth slowed in the second quarter from a 4.9-percent increase in the first; however, the slowdown shown by the preliminary estimates was about half that shown by the advance estimates. The slowdown was more than accounted

1. Quarterly estimates in the NIPA’s are expressed at seasonally adjusted annual rates, and quarterly changes are differences between these rates. Quarter-to-quarter percent changes are annualized. Real estimates are expressed in chained (1992) dollars. Price indexes are chain-type indexes.

**Table 1.—Real Gross Domestic Product, Real Gross Domestic Purchases, and Real Final Sales to Domestic Purchasers**

[Seasonally adjusted at annual rates]

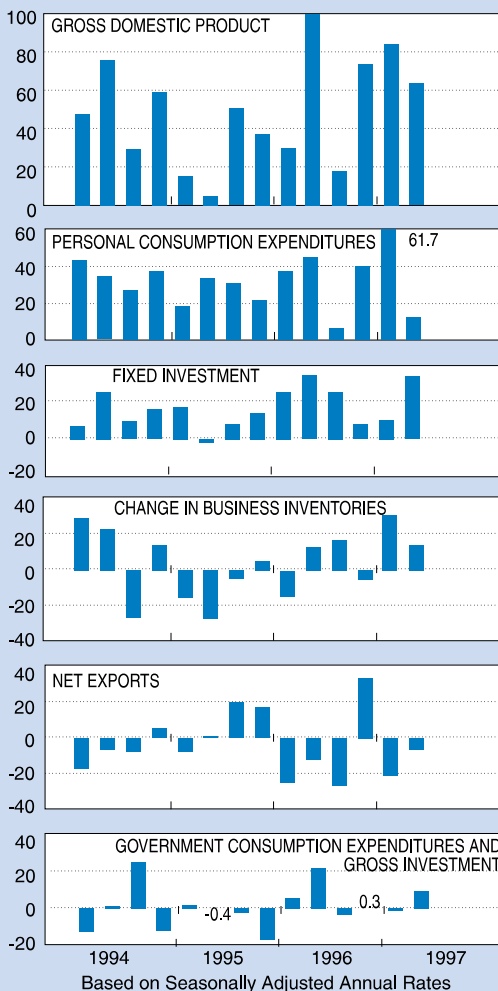
	Billions of chained (1992) dollars					Percent change from preceding quarter			
	Level		Change from preceding quarter			1996		1997	
	1997		1996			1996		1997	
	II	III	IV	I	II	III	IV	I	II
<b>Gross domestic product</b> .....	<b>7,165.1</b>	<b>17.8</b>	<b>73.6</b>	<b>84.2</b>	<b>63.5</b>	<b>1.0</b>	<b>4.3</b>	<b>4.9</b>	<b>3.6</b>
Less: Exports of goods and services .....	965.0	4.0	49.7	21.6	42.3	1.9	25.5	9.9	19.7
Plus: Imports of goods and services .....	1,097.7	30.2	16.4	42.3	48.8	13.2	6.8	17.9	19.9
<b>Equals: Gross domestic purchases</b> .....	<b>7,288.9</b>	<b>41.7</b>	<b>43.1</b>	<b>102.5</b>	<b>68.0</b>	<b>2.4</b>	<b>2.5</b>	<b>5.9</b>	<b>3.8</b>
Less: Change in business inventories .....	77.7	16.6	-5.0	30.8	14.0	.....	.....	.....	.....
<b>Equals: Final sales to domestic purchasers</b> .....	<b>7,206.3</b>	<b>26.5</b>	<b>46.3</b>	<b>70.4</b>	<b>53.2</b>	<b>1.5</b>	<b>2.7</b>	<b>4.0</b>	<b>3.0</b>
Personal consumption expenditures .....	4,830.0	6.0	38.2	61.7	11.9	.5	3.3	5.3	1.0
Nonresidential fixed investment .....	838.5	29.6	11.5	8.1	29.6	16.5	5.9	4.1	15.4
Residential investment .....	278.0	-3.1	-3.0	2.2	4.7	-4.5	-4.3	3.3	7.1
Government consumption expenditures and gross investment .....	1,270.0	-3.6	.3	-1.3	9.5	-1.1	.1	-4	3.1
Federal .....	460.4	-5.0	-6.1	-6.8	7.6	-4.2	-5.2	-5.8	6.8
State and local .....	809.7	1.5	6.4	5.4	2.0	.7	3.3	2.7	1.0
<b>Addendum: Final sales of domestic product</b> .....	<b>7,082.7</b>	<b>2.7</b>	<b>76.7</b>	<b>52.4</b>	<b>48.6</b>	<b>.2</b>	<b>4.5</b>	<b>3.0</b>	<b>2.8</b>

NOTE.—Chained (1992) dollar series are calculated as the product of the chain-type quantity index and the 1992 current-dollar value of the corresponding series, divided by 100. Because the formula for the chain-type quantity indexes uses weights of more than one period, the corresponding chained-dollar estimates usually are not additive.

**CHART 1**

## Real Product: Change from Preceding Quarter

Billion chained (1992) \$



Based on Seasonally Adjusted Annual Rates  
U.S. Department of Commerce, Bureau of Economic Analysis

for by consumer spending, but change in business inventories and imports also contributed. In contrast, business and residential fixed investment and exports increased more in the second quarter than in the first, and government spending increased after decreasing.

Real gross domestic purchases increased 3.8 percent in the second quarter after increasing 5.9 percent in the first. Consumer spending and change in business inventories accounted for the slowdown. (Unlike GDP, gross domestic purchases includes imports and excludes exports; thus, it represents purchases by U.S. residents, regardless of where the purchased goods and services are produced.)

The price index for gross domestic purchases increased 0.8 percent in the second quarter—the smallest increase in 34 years—after increasing 1.9 percent in the first; the deceleration was mainly accounted for by a downturn in energy prices. The price index for GDP increased 1.5 percent after increasing 2.4 percent. The smaller second-quarter increase in gross domestic purchases prices than in GDP prices reflects the sharper decline in import prices than in export prices.

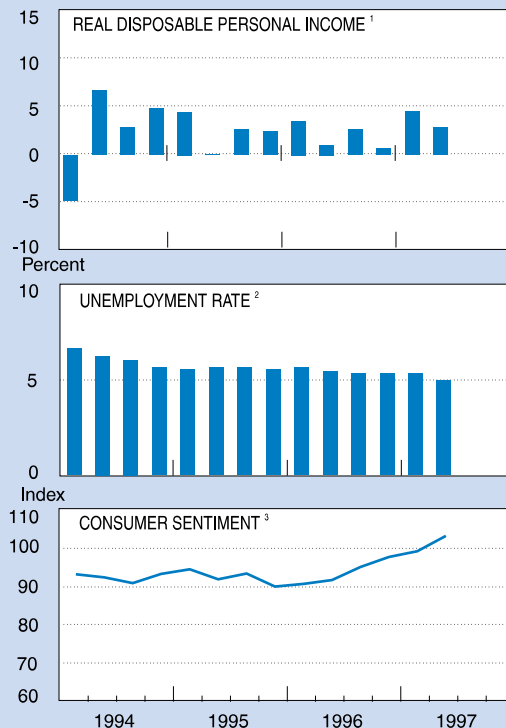
### Personal consumption expenditures

Real personal consumption expenditures (PCE) increased 1.0 percent in the second quarter after increasing 5.3 percent in the first (table 2).

CHART 2

### Selected Factors Affecting Consumer Spending

Percent change



1. Disposable personal income in chained (1992) dollars; seasonally adjusted annual rates.

2. All civilian workers, seasonally adjusted.

Data: U.S. Department of Labor, Bureau of Labor Statistics

3. Data: University of Michigan's Survey Research Center.

U.S. Department of Commerce, Bureau of Economic Analysis

Table 2.—Real Personal Consumption Expenditures

[Seasonally adjusted at annual rates]

	Billions of chained (1992) dollars					Percent change from preceding quarter			
	Level		Change from preceding quarter			1996		1997	
	1997	1996	1997						
	II	III	IV	I	II	III	IV	I	II
<b>Personal consumption expenditures</b> .....	<b>4,830.0</b>	<b>6.0</b>	<b>38.2</b>	<b>61.7</b>	<b>11.9</b>	<b>0.5</b>	<b>3.3</b>	<b>5.3</b>	<b>1.0</b>
Durable goods .....	629.0	-2.9	5.2	20.7	-8.8	-1.9	3.5	14.1	-5.4
Motor vehicles and parts .....	223.1	-4.5	-1.7	5.4	-10.3	-7.5	-3.1	9.9	-16.6
Of which: New autos .....	73.9	-2.6	.3	2.6	-5.7	-12.3	1.7	13.8	-25.6
New trucks .....	51.9	-1.2	1.2	-8	-2.7	-8.4	9.1	-5.6	-18.1
Furniture and household equipment .....	292.3	2.4	4.5	10.6	4.9	3.6	6.8	16.1	7.1
Other .....	119.7	-2	3.1	5.1	-1.7	-7	11.3	18.6	-5.4
Nondurable goods .....	1,449.5	2.3	7.3	16.6	-8.3	.6	2.1	4.7	-2.3
Food .....	688.4	-3.0	1.7	5.6	-6.2	-1.7	1.0	3.3	-3.5
Clothing and shoes .....	273.6	2.4	-8	7.1	-3.5	3.7	-1.2	10.9	-5.0
Gasoline and oil .....	115.9	-4	.7	-1	1.2	-1.5	2.6	-.5	4.2
Fuel oil and coal .....	10.1	.2	-3	-9	.7	6.5	-8.4	-31.4	34.3
Other .....	362.9	3.4	5.8	5.4	-8	3.9	6.7	6.2	-8
Services .....	2,750.9	6.3	25.4	25.7	27.0	1.0	3.9	3.9	4.0
Housing .....	712.0	3.0	3.1	3.5	3.7	1.7	1.8	2.0	2.1
Household operation .....	296.2	-6.2	5.9	-3.7	8.2	-8.2	8.5	-5.0	12.0
Electricity and gas .....	119.9	-4.9	2.9	-3.9	6.1	-15.3	10.5	-12.6	23.1
Other household operation .....	176.2	-1.4	3.0	.1	2.2	-3.2	7.2	.3	5.3
Transportation .....	200.0	1.6	1.6	2.3	.7	3.3	3.3	4.8	1.3
Medical care .....	711.2	3.6	7.3	7.3	6.8	2.1	4.3	4.2	3.9
Other .....	832.1	4.0	7.6	15.9	7.8	2.0	3.8	8.1	3.8

NOTE.—See note to table 1 for an explanation of chained (1992) dollar series. Additional detail is shown in NIPA tables 8.5 (autos), and 8.7 (trucks).

Expenditures for both durable goods and non-durable goods decreased after increasing, and expenditures for services increased about the same in both quarters.

Several of the factors usually considered in analyses of PCE showed strength in the second quarter (chart 2). The unemployment rate fell from 5.3 percent to 4.9 percent, the lowest level in 24 years, and the Index of Consumer Sentiment (prepared by the University of Michigan's Survey Research Center) jumped to its highest level in over 45 years after a strong increase in the first quarter. In contrast, real disposable personal income increased 2.9 percent in the second quarter after increasing 4.6 percent in the first.

Expenditures for durable goods decreased 5.4 percent after jumping 14.1 percent. Motor vehicles and parts and "other" durable goods decreased after increasing, and furniture and household equipment increased less in the second quarter than in the first. About half of the sharp downturn in motor vehicles and parts was accounted for by a downturn in purchases of new cars; in addition, purchases of new trucks (which includes recreational vehicles) decreased more in the second quarter than in the first, and net purchases of used cars and purchases of parts turned down. The slowdown in furniture and household equipment was primarily in furniture and "other durable house furnishings" (which includes such items as clocks, lamps, and floor coverings).

Expenditures for nondurable goods decreased 2.3 percent after increasing 4.7 percent. Down-

turns in food, in clothing and shoes, and in "other" nondurable goods more than offset small upturns in gasoline and oil and in fuel oil and coal.

Expenditures for services increased 4.0 percent after increasing 3.9 percent. Household operation, primarily electricity and gas, turned up sharply; "other" services, transportation, and medical care each increased less in the second quarter than in the first; and housing services increased about the same in each quarter. The sharp upturn in electricity and gas largely reflected an increase in the demand for heating as a result of cooler-than-normal spring temperatures that followed warmer-than-normal winter temperatures. The slowdown in "other" services reflected a downturn in brokerage commissions and investment counseling and a slowdown in recreational services. The slowdown in transportation was accounted for by airlines, which decreased after increasing; the downturn in airlines may have reflected an increase in fares that was due to the reinstitution of Federal taxes on airfares, which had lapsed during the first quarter.

### Nonresidential fixed investment

Real private nonresidential fixed investment increased 15.4 percent in the second quarter after increasing 4.1 percent in the first (table 3). The acceleration was more than accounted for by producers' durable equipment (PDE); investment

**Table 3.—Real Gross Private Domestic Fixed Investment**

[Seasonally adjusted at annual rates]

	Billions of chained (1992) dollars					Percent change from preceding quarter			
	Level	Change from preceding quarter				1996		1997	
	1997	1996		1997					
	II	III	IV	I	II	III	IV	I	II
<b>Gross private domestic fixed investment</b> .....	<b>1,112.6</b>	<b>25.2</b>	<b>7.8</b>	<b>10.3</b>	<b>33.6</b>	<b>10.1</b>	<b>3.0</b>	<b>3.9</b>	<b>13.1</b>
Nonresidential .....	838.5	29.6	11.5	8.1	29.6	16.5	5.9	4.1	15.4
Structures .....	193.9	4.4	6.9	-1.0	-2.0	10.0	15.3	-2.1	-3.9
Nonresidential buildings, including farm .....	147.2	4.7	6.7	1.7	-2.9	14.4	20.3	4.4	-7.5
Utilities .....	28.9	-4	.8	-2.0	1.4	-5.6	12.2	-24.7	21.6
Mining exploration, shafts, and wells .....	13.0	.2	-3	-2	-6	7.2	-9.7	-4.1	-17.8
Other .....	4.8	0	-3	-5	.2	-4.8	-19.2	-33.1	19.9
Producers' durable equipment .....	650.4	25.8	3.8	9.9	33.8	19.1	2.6	6.7	23.8
Information processing and related equipment .....	296.5	19.5	6.1	11.0	15.1	35.9	9.6	17.2	23.3
Computers and peripheral equipment .....	216.0	18.0	12.4	13.4	20.2	56.5	32.5	32.9	48.2
Other .....	124.1	6.3	-1.0	2.2	2.6	23.8	-3.2	7.6	8.9
Industrial equipment .....	123.4	-1.2	-7	-1	6.6	-4.1	-2.2	-3	24.3
Transportation and related equipment .....	137.4	7.7	.2	-2.2	9.9	27.7	.8	-6.8	34.9
Of which: Motor vehicles .....	115.0	4.6	.1	3.9	-1.7	18.4	.3	14.5	-5.7
Other .....	109.1	2.7	-3	3.6	3.0	11.3	-1.4	14.9	11.8
Residential .....	278.0	-3.1	-3.0	2.2	4.7	-4.5	-4.3	3.3	7.1
Single-family structures .....	136.1	-3	-2.1	0	-1	-8	-5.9	0	-3
Multifamily structures .....	20.6	-2.7	.5	1.6	1.0	-43.6	12.8	41.1	20.8
Other .....	121.9	-3	-1.4	.7	4.0	-1.0	-4.8	2.3	14.3

NOTE.—See note to table 1 for an explanation of chained (1992) dollar series. Additional detail is shown in NIPA tables 5.5, 8.5 (autos), and 8.7 (trucks).

in structures decreased more than in the first quarter.

Factors that affect investment spending have been generally favorable in recent quarters. Real final sales of domestic product have increased 2.6 percent over the past four quarters. Domestic corporate profits have increased at an annual rate of 7.9 percent over the same period. The capacity utilization rate in manufacturing has hovered near 82.5 during most of the period, and long term interest rates have stayed relatively low; for example, the yield on high grade corporate bonds has remained in the 7.5–8.0-percent range.

PDE increased 23.8 percent after increasing 6.7 percent. The strength was evident across all the major types of equipment. Transportation equipment increased after a decrease; the upturn was more than accounted for by aircraft. Industrial equipment increased after little change. Information processing equipment increased more than in the first quarter; computers and peripheral equipment accounted for the step-up. “Other” PDE (which includes such items as agricultural machinery, tractors, furniture and fixtures, and electrical equipment) increased about as much as in the first quarter.

Structures decreased 3.9 percent after decreasing 2.1 percent. The larger second-quarter decrease mainly reflected a downturn in nonresidential buildings, but it also reflected a larger decrease in the second quarter than in the first

in mining exploration, shafts, and wells. Utilities increased after decreasing.

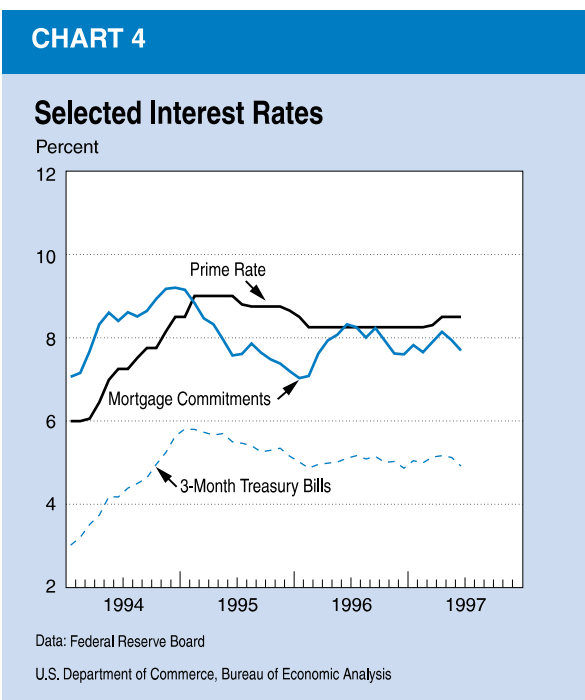
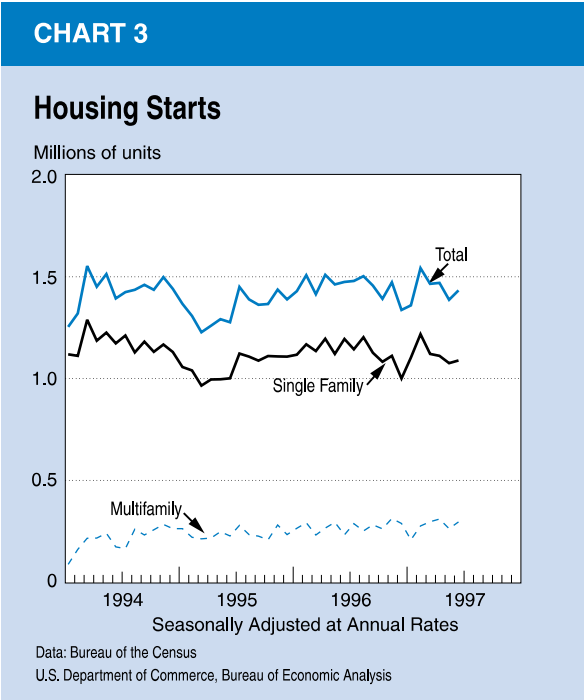
Residential investment

Real residential investment increased 7.1 percent in the second quarter after increasing 3.3 percent in the first (table 3). The acceleration was more than accounted for by “other” residential investment.<sup>2</sup> Single-family construction changed little, and multifamily construction slowed.

“Other” residential investment increased 14.3 percent after increasing 2.3 percent. The acceleration was attributable to increases in home improvements, brokers’ commissions on home sales, mobile home sales, and other residential structures. The increase in brokers’ commissions reflected an increase of 36,000 units (seasonally adjusted annual rate) in home sales; an increase of 76,000 units in sales of existing residences was partly offset by a drop of 39,000 units in sales of new residences. The increase in home sales occurred despite a slight increase in the commitment rate on 30-year, fixed-rate mortgages from 7.79 percent to 7.92 percent (chart 4).

Single-family structures decreased 0.3 percent in the second quarter after no change in the first. Multifamily construction increased 20.8 percent after increasing 41.1 percent.

2. “Other” residential investment includes home improvements, new mobile home sales, brokers’ commissions on home sales, residential equipment, and other residential structures, which consists of dormitories, fraternity and sorority houses, and nurses’ homes.



### Inventory investment

Real inventory investment—that is, the change in business inventories—increased \$14.0 billion in the second quarter after increasing \$30.8 billion in the first (table 4). The second-quarter increase mainly reflected a step-up in nonfarm inventory accumulation.

Nonfarm inventories increased \$70.4 billion after increasing \$58.3 billion. The step-up was attributable to faster accumulation of manufacturing inventories, retail trade inventories, and wholesale trade inventories. In contrast, “other” nonfarm inventories increased less than in the first quarter.

In manufacturing, inventories in both the durable goods and nondurable goods industries increased more in the second quarter than in the first. In the durable goods industries, the pickup was accounted for by an upturn in electronic machinery and by an acceleration in industrial equipment. In the nondurable goods industries, the pickup was primarily accounted for by an acceleration in chemical products and an upturn in apparel products.

The step-up in wholesale trade was accounted for by an acceleration in inventories of the durable goods industries, primarily professional and commercial equipment and machinery equipment. In contrast, inventories of nondurable goods industries increased less than in the first quarter.

In retail trade, inventories in the nondurable goods industries increased after decreasing, and inventories in the durable goods industries increased more in the second quarter than in the first. In the nondurable goods industries, the upturn was accounted for by upturns in apparel stores, other general merchandise stores, and department stores. In durable goods industries, the pickup was more than accounted for by

inventories other than those held by motor vehicle dealers. Inventories of motor vehicle dealers decreased for the third consecutive quarter.

The slowdown in “other” nonfarm inventories was primarily in inventories of the nondurable goods industries.<sup>3</sup>

Farm inventories increased \$7.4 billion after increasing \$5.3 billion. Inventories of crops increased more than in the first quarter, and inventories of livestock decreased less than in the first quarter.

Based on the preliminary estimates, the ratio of real nonfarm business inventories to real final sales of domestic business increased from 2.26 in the first quarter to 2.28 in the second, unrevised from the advance estimates. A different ratio, in which final sales are limited to goods and structures, increased to 4.12 from 4.08.

### Exports and imports

Real exports of goods and services increased 19.7 percent in the second quarter after increasing 9.9 percent in the first (table 5). Real imports of goods and services increased 19.9 percent after increasing 17.9 percent.

Real exports of goods increased 28.0 percent after increasing 12.6 percent. Agricultural exports turned up, and nonagricultural exports increased more than in the first quarter. Much of the step-up in nonagricultural exports was accounted for by nonautomotive capital goods, as exports of “other” capital goods, of aircraft, and of computers all increased more than in the first quarter.<sup>4</sup> Industrial supplies and materials and nonautomotive consumer goods also contributed to the

3. “Other” nonfarm inventories includes inventories held by mining, construction, public utilities, transportation, communication, and service industries.

4. Exports and imports of nonautomotive capital goods include both parts and equipment. However, parts are *not* included either in the producers’ durable equipment component of business fixed investment or in the equipment component of government investment.

**Table 4.—Real Change in Business Inventories**

[Billions of chained (1992) dollars; seasonally adjusted at annual rates]

	Level					Change from preceding quarter			
	1996			1997		1996		1997	
	II	III	IV	I	II	III	IV	I	II
<b>Change in business inventories .....</b>	<b>21.3</b>	<b>37.9</b>	<b>32.9</b>	<b>63.7</b>	<b>77.7</b>	<b>16.6</b>	<b>-5.0</b>	<b>30.8</b>	<b>14.0</b>
Farm .....	4.2	6.5	6.4	5.3	7.4	2.3	-1.1	-1.1	2.1
Nonfarm .....	17.3	31.6	26.5	58.3	70.4	14.3	-5.1	31.8	12.1
Manufacturing .....	.6	14.3	12.3	20.9	30.0	13.7	-2.0	8.6	9.1
Wholesale trade .....	5.5	-5.0	9.4	22.9	24.3	-10.5	14.4	13.5	1.4
Retail trade .....	7.8	20.0	.9	.6	9.7	12.2	-19.1	-.3	9.1
Other .....	3.4	2.3	3.9	13.7	6.4	-1.1	1.6	9.8	-7.3

NOTE.—See note to table 1 for an explanation of chained (1992) dollar series. Chained (1992) dollar levels and residuals are found in NIPA table 5.11.



step-up in nonagricultural exports. In contrast, exports of autos increased less than in the first quarter. Exports of services increased 1.0 percent after increasing 3.7 percent; the slowdown reflected downturns in travel and in passenger fares that were partly offset by upturns in transfers under U.S. military agency sales contracts and in "other" transportation.

Real imports of goods increased 22.5 percent after increasing 16.7 percent. Most categories of imports contributed to the step-up. Sizable step-ups were posted by nonautomotive capital goods, nonautomotive consumer goods, and industrial supplies and materials; imports of petroleum turned up. In contrast to the strength in these components, imports of autos turned down. Imports of services increased 7.5 percent after increasing 24.2 percent; much of the deceleration was accounted for by a slowdown in travel and by a downturn in passenger fares.

### Government spending

Real government consumption expenditures and gross investment increased 3.1 percent in the second quarter after decreasing 0.4 percent in the first (table 6). Federal Government spending turned up, but State and local government spending increased less in the second quarter than in the first.

Federal defense spending increased 7.6 percent after decreasing 11.8 percent. Consumption expenditures increased after decreasing; the upturn was accounted for by services other than compensation of employees and consumption of fixed capital and by durable goods, mainly aircraft. Investment increased after decreasing substantially; the upturn was accounted for by equipment—mostly by "other" equipment, ships, and missiles.

Federal nondefense spending increased 5.3 percent after increasing 8.0 percent. The slowdown

**Table 5.—Real Exports and Imports of Goods and Services**

[Seasonally adjusted at annual rates]

	Billions of chained (1992) dollars					Percent change from preceding quarter			
	Level	Change from preceding quarter				1996		1997	
	1997	1996		1997					
	II	III	IV	I	II	III	IV	I	II
<b>Exports of goods and services</b> .....	<b>965.0</b>	<b>4.0</b>	<b>49.7</b>	<b>21.6</b>	<b>42.3</b>	<b>1.9</b>	<b>25.5</b>	<b>9.9</b>	<b>19.7</b>
Goods .....	729.9	3.8	43.2	20.0	43.7	2.5	30.7	12.6	28.0
Agricultural goods .....	50.2	1.4	4.9	-4.0	2.5	13.1	49.2	-27.6	22.3
Nonagricultural goods .....	683.2	2.1	37.9	25.6	41.6	1.5	29.0	17.7	28.6
Services .....	239.5	.1	7.4	2.1	.6	.3	13.5	3.7	1.0
<b>Imports of goods and services</b> .....	<b>1,097.7</b>	<b>30.2</b>	<b>16.4</b>	<b>42.3</b>	<b>48.8</b>	<b>13.2</b>	<b>6.8</b>	<b>17.9</b>	<b>19.9</b>
Goods .....	937.7	30.0	15.8	33.8	46.4	15.7	7.7	16.7	22.5
Petroleum and products .....	67.7	1.6	-3.5	-1.8	5.5	10.6	-19.6	-10.8	40.5
Nonpetroleum products .....	870.1	28.2	20.4	37.0	40.4	16.1	11.0	20.0	21.0
Services .....	161.3	.5	.7	8.4	2.9	1.2	2.1	24.2	7.5
<b>Addendum: Net exports of goods and services</b> .....	<b>-132.7</b>	<b>-26.3</b>	<b>33.3</b>	<b>-20.7</b>	<b>-6.4</b>	.....	.....	.....	.....

NOTE.—See note to table 1 for an explanation of chained (1992) dollar series. Additional detail is shown in NIPA table 4.4.

**Table 6.—Real Government Consumption Expenditures and Real Gross Investment by Type**

[Seasonally adjusted at annual rates]

	Billions of chained (1992) dollars					Percent change from preceding quarter			
	Level	Change from preceding quarter				1996		1997	
	1997	1996		1997					
	II	III	IV	I	II	III	IV	I	II
<b>Government consumption expenditures and gross investment</b> .....	<b>1,270.0</b>	<b>-3.6</b>	<b>0.3</b>	<b>-1.3</b>	<b>9.5</b>	<b>-1.1</b>	<b>0.1</b>	<b>-0.4</b>	<b>3.1</b>
Federal .....	460.4	-5.0	-6.1	-6.8	7.6	-4.2	-5.2	-5.8	6.8
National defense .....	309.5	-3.8	-5.8	-9.7	5.6	-4.6	-7.1	-11.8	7.6
Consumption expenditures .....	274.0	-3	-3.7	-4.1	3.7	-5	-5.2	-5.8	5.6
Gross investment .....	35.5	-3.5	-2.2	-5.7	2.0	-27.5	-19.4	-46.9	25.9
Nondefense .....	150.4	-1.2	-.3	2.8	1.9	-3.2	-1.0	8.0	5.3
Consumption expenditures .....	128.3	-1.9	.5	2.6	.6	-5.8	1.6	8.5	1.9
Gross investment .....	22.3	.8	-1.0	.2	1.5	16.0	-16.8	4.0	31.9
State and local .....	809.7	1.5	6.4	5.4	2.0	.7	3.3	2.7	1.0
Consumption expenditures .....	664.3	1.5	2.1	3.3	3.2	.9	1.3	2.0	1.9
Gross investment .....	145.4	-1	4.4	2.1	-1.2	-1	13.1	6.0	-3.3

NOTE.—See note to table 1 for an explanation of chained (1992) dollar series. Additional detail is shown in NIPA table 3.8B.

was attributable to a deceleration in consumption expenditures. Investment increased more in the second quarter than in the first; the acceleration was accounted for by equipment.

State and local government spending increased 1.0 percent after increasing 2.7 percent. Investment decreased after increasing, reflecting a downturn in structures, and consumption expenditures changed little. (For more detailed information on government spending, see the "Government Sector.")

### Revisions

As noted earlier, the preliminary estimate of a 3.6-percent increase in real GDP in the second quarter is 1.4 percentage points higher than the advance estimate (table 7); for 1976–96, the average revision, without regard to sign, was 0.5 percentage point from the advance estimate of real GDP to the preliminary estimate. The upward revision to GDP reflected upward revisions to change in business inventories, to exports of goods and services, to producers' durable equipment, and to personal consumption expenditures and a downward revision to imports of goods and services. Government spending was revised down. The preliminary estimate of the increase in the price index for gross domestic purchases is 0.8 percent, 0.2 percentage point higher than the advance estimate, and the preliminary estimate of the increase in the price index for GDP is 1.5 percent, 0.1 percentage point higher than the advance estimate.

The upward revision to exports of goods and services was more than accounted for by goods and reflected the incorporation of newly available Census Bureau data for June and revised data for May.

The upward revision to change in business inventories was more than accounted for by wholesale trade and manufacturing. The revisions to wholesale trade and to manufacturing primarily reflected the incorporation of newly available Census Bureau data on the value of inventories for June.

The upward revision to PDE reflected the incorporation of newly available data on manufacturers' shipments of machinery and equipment and on exports and imports of machinery and equipment.

The upward revision to PCE was accounted by services and reflected the incorporation of newly available data on the use of electricity.

The downward revision to imports of goods and services was accounted for by goods and reflected the incorporation of newly available Census Bureau data for June.

The preliminary estimate of real disposable personal income increased 2.9 percent in the second quarter, 0.1 percentage point lower than the advance estimate; current-dollar personal income was revised down slightly, and personal tax and nontax payments were unrevised. The preliminary estimate of the personal saving rate, at 4.2 percent, was unrevised from the advance estimate.

**Table 7.—Revisions to Real Gross Domestic Product and Prices,  
Second Quarter 1997**

[Seasonally adjusted at annual rates]

	Percent change from preceding quarter		Preliminary estimate minus advance estimate	
	Advance estimate	Prelimi- nary estimate	Percent- age points	Billions of chained (1992) dollars
<b>Gross domestic product</b> .....	<b>2.2</b>	<b>3.6</b>	<b>1.4</b>	<b>25.4</b>
Less: Exports of goods and services .....	14.4	19.7	5.3	10.9
Goods .....	19.9	28.0	8.1	11.9
Services .....	1.7	1.0	–.7	–.4
Plus: Imports of goods and services .....	21.8	19.9	–1.9	–4.3
Goods .....	24.8	22.5	–2.3	–4.4
Services .....	7.2	7.5	.3	.1
<b>Equals: Gross domestic purchases</b> .....	<b>3.1</b>	<b>3.8</b>	<b>.7</b>	<b>12.0</b>
Personal consumption expenditures .....	.8	1.0	.2	2.1
Durable goods .....	–5.7	–5.4	.3	.5
Nondurable goods .....	–2.1	–2.3	–.2	–.6
Services .....	3.7	4.0	.3	2.1
Fixed investment .....	12.4	13.1	.7	1.7
Nonresidential .....	15.1	15.4	.3	.7
Structures .....	2.3	–3.9	–6.2	–3.1
Producers' durable equipment .....	20.4	23.8	3.4	4.5
Residential .....	5.6	7.1	1.5	.9
Change in business inventories .....	.....	.....	.....	10.9
Nonfarm .....	.....	.....	.....	9.7
Farm .....	.....	.....	.....	1.3
Government consumption expenditures and gross investment ....	3.8	3.1	–.7	–2.3
Federal .....	8.4	6.8	–1.6	–1.6
National defense .....	10.3	7.6	–2.7	–1.9
Nondefense .....	4.6	5.3	.7	.3
State and local .....	1.3	1.0	–.3	–.7
<b>Addenda:</b>				
Final sales of domestic product .....	1.9	2.8	.9	14.7
Gross domestic purchases price index <sup>1</sup> .....	.6	.8	.2	.....
GDP price index <sup>1</sup> .....	1.4	1.5	.1	.....

1. Based on chained-type annual (1992) weights.

NOTE.—The preliminary estimates for the second quarter of 1997 incorporate the following revised or additional major source data that were not available when the advance estimates were prepared.

*Personal consumption expenditures:* Revised retail sales for May and June, consumers' share of new-car purchases for June, consumers' share of new-truck purchases for June, used car sales for the quarter, hospital expenses for April, and residential electricity usage for the first quarter (revised) and for May.

*Nonresidential fixed investment:* Construction put in place for April and May (revised) and June, manufacturers' shipments of machinery and equipment for May and June (revised), and exports and imports of machinery and equipment for May (revised) and June.

*Residential fixed investment:* Construction put in place for April and May (revised) and June.

*Change in business inventories:* Manufacturing inventories for May (revised) and June, and retail trade and wholesale trade inventories for May (revised) and June.

*Exports and imports of goods and services:* Exports and imports of goods for May (revised) and June.

*Government consumption expenditures and gross investment:* Monthly Treasury Statement detailed data for June, Department of Defense detailed financial reports for the quarter, State and local government construction put in place for April and May (revised) and June, and State and local government employment for May and June (revised).

*Wages and salaries:* Employment, average hourly earnings, and average weekly hours for May and June (revised).

*GDP prices:* Detailed merchandise export and import price indexes for April through June (revised), values and quantities of petroleum imports for May (revised) and June, and housing prices for the second quarter.

## Corporate Profits

Profits from current production increased \$14.9 billion in the second quarter after increasing \$31.8 billion in the first (table 8).<sup>5</sup> Profits of domestic industries increased \$13.7 billion after increasing \$41.9 billion. Profits of financial corporations were unchanged after a strong increase; profits of nonfinancial corporations increased about as much as in the first quarter. For nonfinancial corporations, the second-quarter increase in profits reflected increases in both real output and in unit profits. Profits from the rest of the world increased \$1.3 billion after decreasing \$10.1 billion; receipts turned up, and payments slowed.<sup>6</sup>

Cash flow from current production, a profits related measure of internally generated funds available for investment, increased \$10.7 billion after increasing \$4.3 billion. The ratio of cash

5. Profits from current production is estimated as the sum of profits before tax, the inventory valuation adjustment, and the capital consumption adjustment; it is shown in NIPA tables 1.9, 1.14, 1.16, and 6.16C as "corporate profits with inventory valuation and capital consumption adjustments."

6. Profits from the rest of the world is calculated as (1) receipts by U.S. residents of earnings from their foreign affiliates plus dividends received by U.S. residents from unaffiliated foreign corporations minus (2) payments by U.S. affiliates of earnings to their foreign parents plus dividends paid by U.S. corporations to unaffiliated foreign residents.

**Table 8.—Corporate Profits**

[Seasonally adjusted at annual rates]

	Level	Change from preceding quarter	
	1997		
	II	1997	
		I	II
	Billions of dollars		
Profits from current production .....	794.5	31.8	14.9
Domestic industries .....	695.9	41.9	13.7
Financial .....	106.8	28.3	0
Nonfinancial .....	589.0	13.7	13.6
Rest of the world .....	98.7	-10.1	1.3
Receipts (inflows) .....	144.6	-2.7	4.7
Payments (outflows) .....	46.0	7.5	3.5
IVA .....	7.6	.2	4.1
CCAAdj .....	69.6	3.3	1.9
Profits before tax .....	717.3	28.4	8.9
Profits tax liability .....	244.4	15.2	3.2
Profits after tax .....	473.0	13.2	5.8
Cash flow from current production .....	689.6	4.3	10.7
Corporate profits with IVA .....	725.0	28.5	13.1
Domestic industries .....	626.3	38.7	11.8
Financial .....	116.6	28.4	.1
Nonfinancial .....	509.7	10.2	11.7
Rest of the world .....	98.7	-10.1	1.3
	Dollars		
Unit price, costs, and profits of nonfinancial corporations:			
Unit price .....	1.070	0.004	0.001
Unit labor cost .....	.697	.004	0
Unit nonlabor cost .....	.229	-.001	0
Unit profits from current production .....	.144	.001	.001

NOTE.—Additional detail and other profits series are shown in NIPA tables 1.14, 1.16, 6.16C, and 7.15.

IVA Inventory valuation adjustment  
CCAdj Capital consumption adjustment

flow to nonresidential fixed investment, an indicator of the share of the current level of investment that could be financed by internally generated funds, decreased to 82.2 percent from 83.9 percent. These levels are near the midpoint of the range in which the ratio has fluctuated during most of this decade.

**Industry profits.**—Industry profits increased \$13.1 billion after increasing \$28.5 billion.<sup>7</sup> For domestic financial corporations, profits were flat after a sharp first-quarter increase that partly reflected a rebound from a special assessment in the fourth quarter on thrift institutions to recapitalize the Savings Association Insurance Fund. For domestic nonfinancial corporations, profits increased about as much as in the first quarter, as an upturn in manufacturing profits was largely offset by a slowdown in retail trade profits and by a downturn in profits in the transportation and public utilities group.

**Related measures.**—Profits before tax (PBT) increased \$8.9 billion after increasing \$28.4 billion. The difference between the \$19.5 billion slowdown in PBT and the \$16.9 billion slowdown in profits from current production was more than accounted for by inventory profits, which decreased after changing little.<sup>8</sup>

## Government Sector

The combined current surplus of the Federal Government and State and local governments increased \$21.4 billion in the second quarter, to \$70.6 billion (table 9).<sup>9</sup> In the second quarter, the surplus as a share of GDP was at its highest level

7. Industry profits, which are estimated as the sum of corporate profits before tax and the inventory valuation adjustment, are shown in NIPA table 6.16C. Estimates of the capital consumption adjustment do not exist at a detailed industry level; they are available only for total financial and total nonfinancial industries.

8. In periods of changing prices, companies that value inventory withdrawals at original acquisition (historical) costs may realize inventory profits or losses. Inventory profits, a capital gains like element in profits, result from an increase in inventory prices, and inventory losses, a capital loss like element in profits, result from a decrease in inventory prices. In the NIPA's, inventory profits or losses are shown as "adjustments" to business income (corporate profits and proprietors' income); they are shown as the inventory valuation adjustment with the sign reversed.

9. The Government sector estimates in the NIPA's are derived from financial statements for the Federal Government and State and local governments but differ from them in several respects. For example, one difference is that NIPA transactions for each sector are recorded on a timing basis that is most appropriate for that sector, so transactions between the government sector and the household sector are recorded on a cash basis, whereas transactions between the government and the business sectors are recorded on an accrual basis. Another difference is that the NIPA treatment of government investment in fixed assets and the cost of using these assets is symmetrical with the treatment of fixed investment in the private sector; consequently, purchases of these assets are not recorded as a current expenditure, but the estimated value of the services of these assets (consumption of fixed capital) are recorded as current expenditures. In addition, transfers of nonproduced assets, such as the sale of land, are excluded from the NIPA's, because they do not affect current production.



in more than 17 years. The improvement in the current surplus was almost entirely accounted for by a decrease in the Federal Government current deficit.<sup>10</sup>

### Federal

The Federal Government current deficit decreased \$20.7 billion, to \$34.8 billion, in the second quarter after decreasing \$21.6 billion in the first quarter. The second-quarter deficit was the smallest since the fourth quarter of 1979.

**Receipts.**—Federal receipts increased \$36.5 billion in the second quarter after increasing \$33.7 billion in the first. The acceleration resulted from a sharp upturn in indirect business tax and nontax accruals that was partly offset by decelerations in corporate profits tax accruals, contributions for social insurance, and personal tax and nontax receipts.

Indirect business tax and nontax accruals increased \$4.0 billion after decreasing \$22.0 billion. The upturn was mostly accounted for by nontaxes, which decreased \$0.5 billion after decreasing \$20.5 billion; the first-quarter decrease followed the special assessment of \$18.0 billion (annual rate) that was paid in the fourth quarter by thrift institutions to recapitalize the Savings Association Insurance Fund. Air transport excise taxes increased \$2.7 billion after decreasing \$3.1 billion; these taxes expired at the end of 1996 and were reinstated in early March 1997.

Corporate profits tax accruals increased \$2.7 billion after increasing \$12.9 billion. The deceleration reflected the pattern of domestic corporate profits.

Contributions for social insurance increased \$6.1 billion after increasing \$13.3 billion. The deceleration was mostly attributable to contributions for social security (old-age, survivors, disability, and health insurance), which increased \$5.5 billion after increasing \$11.6 billion, reflecting the slowdown in wages and salaries; the first-

quarter increase was boosted by an increase in the social security taxable wage base.

Personal tax and nontax receipts increased \$23.8 billion after increasing \$29.4 billion. The slowdown was mostly accounted for by "estimated income tax payments and final settlements, less refunds," which increased \$9.4 billion after increasing \$14.6 billion. Withheld income taxes increased \$12.6 billion after increasing

**Table 9.—Government Sector Receipts and Current Expenditures**

[Billions of dollars, seasonally adjusted at annual rates]

	Level		Change from preceding quarter			
	1997		1996		1997	
	II	II	III	IV	I	II
<b>Government sector</b>						
Receipts .....	2,569.8	70.1	19.1	52.3	47.6	43.2
Current expenditures .....	2,499.2	17.8	18.8	32.2	21.6	21.8
Current surplus or deficit(–) .....	70.6	52.4	.3	20.1	26.0	21.4
Social insurance funds .....	131.8	4.8	5.0	2.3	–2.1	1.9
Other .....	–61.2	47.6	–4.7	17.8	28.1	19.5
<b>Federal Government</b>						
Receipts .....	1,711.8	57.5	14.8	43.0	33.7	36.5
Personal tax and nontax receipts .....	770.7	43.9	6.9	21.8	29.4	23.8
Corporate profits tax accruals .....	207.6	5.1	–5	–4.7	12.9	2.7
Indirect business tax and nontax accruals .....	92.2	–1.7	1.5	18.7	–22.0	4.0
Contributions for social insurance .....	641.4	10.2	7.0	7.2	13.3	6.1
Current expenditures .....	1,746.6	15.5	2.8	20.6	12.0	15.8
Consumption expenditures .....	464.2	9.1	.3	–4	4.4	6.2
National defense .....	311.3	9.6	1.5	–1.7	–1.2	4.9
Nondefense .....	153.0	–5	–1.3	1.4	5.7	1.3
Transfer payments (net) .....	791.6	–1	4.0	15.8	8.6	5.7
To persons .....	780.7	7.9	3.4	4.7	21.1	5.2
To the rest of the world .....	10.9	–8.0	.7	11.0	–12.4	.4
Grants-in-aid to State and local governments .....	222.5	9.5	–4.5	–1.2	2.1	2.9
Net interest paid .....	230.2	–3.1	3.1	5.2	–2.9	1.3
Interest paid .....	254.4	–2.8	3.3	2.7	–2.9	1.2
To persons and business .....	163.6	–5.6	–3.2	–2.8	–8.0	–5.1
To the rest of the world .....	90.8	2.6	6.7	5.4	5.2	6.2
Less: Interest received by government .....	24.3	.2	.3	–2.6	.1	–.1
Subsidies less current surplus of government enterprises .....	38.1	.1	–1.1	1.1	–.1	–.3
Subsidies .....	34.3	0	.1	.3	.4	.5
Of which: Agricultural subsidies .....	7.5	.1	0	.1	0	.1
Less: Current surplus of government enterprises .....	–3.8	–.1	.3	–.9	.4	.9
Less: Wage accruals less disbursements .....	0	0	0	0	0	0
Current surplus or deficit (–) .....	–34.8	42.0	12.1	22.4	21.6	20.7
Social insurance funds .....	60.2	4.2	4.9	2.4	–1.9	1.5
Other .....	–95.0	37.7	7.2	20.1	23.5	19.2
<b>State and local governments</b>						
Receipts .....	1,080.4	22.0	–2	8.2	16.0	9.5
Personal tax and nontax receipts .....	211.3	3.9	2.8	3.4	3.6	2.6
Corporate profits tax accruals .....	36.8	.9	–1	–.9	2.4	.4
Indirect business tax and nontax accruals .....	524.4	6.6	.5	5.7	6.9	2.4
Contributions for social insurance .....	85.4	1.2	1.1	1.1	1.1	1.2
Federal grants-in-aid .....	222.5	9.5	–4.5	–1.2	2.1	2.9
Current expenditures .....	975.1	11.7	11.7	10.3	11.6	9.0
Consumption expenditures .....	757.2	9.4	8.9	7.4	8.4	5.5
Transfer payments to persons .....	309.5	3.6	3.9	4.0	4.5	4.4
Net interest paid .....	–64.8	–7	–1.0	–.8	–1.0	–.8
Less: Dividends received by government .....	14.7	.3	.1	.3	.3	.4
Subsidies less current surplus of government enterprises .....	–12.2	–.2	–.1	–.1	.2	.1
Subsidies .....	.3	0	0	0	0	0
Less: Current surplus of government enterprises .....	12.5	.3	.1	0	–.1	–.2
Less: Wage accruals less disbursements .....	0	0	0	0	0	0
Current surplus or deficit (–) .....	105.3	10.3	–11.8	–2.2	4.3	.6
Social insurance funds .....	71.6	.5	.2	–.1	–.1	.3
Other .....	33.7	9.9	–12.0	–2.2	4.6	.2

NOTE.—Dollar levels are found in NIPA tables 3.1, 3.2, and 3.3.

Tables that reconcile the NIPA estimates with government financial statements will be published in the October 1997 SURVEY OF CURRENT BUSINESS.

For more information, see *Government Transactions*, NIPA Methodology Paper Series MP-5 (Washington, DC: U.S. Printing Office, November 1988); and "Preview of the Comprehensive Revision of the National Income and Product Accounts: Recognition of Government Investment and Incorporation of a New Methodology For Calculating Depreciation," SURVEY 75 (September 1995): 33–41.

10. In July 1997, BEA released revised NIPA estimates beginning with the first quarter of 1993. As a result of upward revisions to Federal government receipts and downward revisions to Federal and to State and local current expenditures, the combined current fiscal position of Federal and State and local governments shifted from a deficit to a surplus in the second quarter of 1996. In the previously published estimates, the shift occurred in the first quarter of 1997.

\$13.2 billion, reflecting the slowdown in wages and salaries.

*Current expenditures.*—Current expenditures increased \$15.8 billion in the second quarter after increasing \$12.0 billion in the first. The acceleration reflected an upturn in net interest paid and accelerations in consumption expenditures and in grants-in-aid to State and local governments that were only partly offset by a deceleration in transfer payments (net).

Net interest paid increased \$1.3 billion after decreasing \$2.9 billion. The turnaround was mostly accounted for by gross interest paid to persons and business, which increased \$1.2 billion after decreasing \$2.9 billion.

Consumption expenditures increased \$6.2 billion after increasing \$4.4 billion. The acceleration was more than accounted for by a turnaround in national defense consumption expenditures, which increased \$4.9 billion after decreasing \$1.2 billion. The turnaround was mostly accounted for by services, which increased \$4.4 billion after decreasing \$1.5 billion. Within services, upturns in weapons support, personnel support, research and development, and installation support were partly offset by a downturn in compensation of employees; employee compensation in the first quarter had been boosted by military and civilian pay raises that went into effect in January. Nondefense consumption expenditures increased \$1.3 billion after increasing \$5.7 billion. The deceleration was mostly accounted for by services, which increased \$1.3 billion after increasing \$4.3 billion. The deceleration in services was mostly accounted for by a deceleration in compensation of employees, which had been boosted in the first quarter by a Federal civilian pay raise that went into effect in January.

Grants-in-aid to State and local governments increased \$2.9 billion after increasing \$2.1 billion. The acceleration was more than accounted for by accelerations in grants for education, health care, highways, and medicaid that were only partly offset by downturns in family assistance and other grants-in-aid.

Transfer payments (net) increased \$5.7 billion after increasing \$8.6 billion. This deceleration was more than accounted for by a deceleration in transfer payments to persons, which increased \$5.2 billion after increasing \$21.1 billion. Most of the deceleration in payments to persons was accounted for by social security (old-age, survivors, and disability insurance), Federal civilian pensions, and veterans pension benefits; the first-quarter increases in these programs reflected a 2.9-percent cost-of-living adjustment that went into effect in January. In addition, the first-quarter growth in transfer payments to persons was boosted by a \$4.4 billion increase in earned income tax credits. Transfers to the rest of the world increased \$0.4 billion after decreasing \$12.4 billion; the first-quarter decrease had followed a large fourth-quarter increase that included a \$9.6 billion (annual rate) payment to Israel.

### *State and local*

The State and local government current surplus increased \$0.6 billion, to \$105.3 billion, in the second quarter after increasing \$4.3 billion in the first. The deceleration was attributable to a deceleration in receipts.

Receipts increased \$9.5 billion after increasing \$16.0 billion. The deceleration was mostly attributable to decelerations in indirect business tax and nontax accruals and in corporate profits tax accruals. Indirect business tax and nontax accruals increased \$2.4 billion after increasing \$6.9 billion; the deceleration was more than accounted for by a downturn in sales taxes, which primarily reflected a downturn in retail sales. Corporate profits tax accruals increased \$0.4 billion after increasing \$2.4 billion, reflecting the pattern of domestic corporate profits. Federal grants-in-aid increased \$2.9 billion after increasing \$2.1 billion.

Current expenditures increased \$9.0 billion after increasing \$11.6 billion. The deceleration was more than accounted for by consumption expenditures, which increased \$5.5 billion after increasing \$8.4 billion. 